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March 13, 2013

Ms. Mary Jo Kunkle
Michigan Public Service Commission
6545 Mercantile Way
P.O. Box 30221
Lansing, MI 48909

Re: Case No. U-17087

Dear Ms. Kunkle:

Attached for paperless electronic filing is Rebuttal Testimony of Alexander J. Zakem on Behalf of Energy Michigan, Inc. Also attached is a Proof of Service indicating service on counsel.

Thank you for your assistance in this matter.

Very truly yours,

VARNUM,^{LLP}

Eric J. Schneidewind

EJS/mrr

cc: ALJ
parties

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for authority to increase its rates for)
the generation and distribution of)
electricity and for other relief.)
_____)

Case No. U-17087

REBUTTAL TESTIMONY
OF
ALEXANDER J.ZAKEM
ON BEHALF OF
ENERGY MICHIGAN

ALEXANDER J. ZAKEM
REBUTTAL TESTIMONY

Q. Please state your name and business address.

1 A. My name is Alexander J. Zakem and my business address is 46180 Concord,
2 Plymouth, Michigan 48170.

3 **Q. On whose behalf are you testifying in this proceeding?**

4 A. I am testifying on behalf of Energy Michigan.

5 **Q. Are you the same Alexander J. Zakem who provided direct testimony in this**
6 **proceeding?**

7 A. Yes, I am. I am an independent consultant providing services to Integrys Energy
8 Services, Inc. Integrys Energy Services is a member of Energy Michigan.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purposes of my rebuttal testimony are: (1) to address the issue of the
11 allocation of the E-1 Economic Development discount to other rates classes, related to
12 the direct testimony of Staff witness Mr. Mark J. Pung; (2) to address the issues of
13 changes to the Retail Open Access (ROA) tariff and additions to the ROA tariff for
14 residential customers, related to the direct testimony of Staff witness Ms. Sheila K.
15 Cornfield; and (3) to address the issues of changes to the ROA tariff that were proposed
16 by the Company and for which the Staff stated it had no objection. For (3), I believe the
17 Staff has not factored in available and relevant evidence.

18

19

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1 The Commission is not persuaded that there is a reason to treat this
2 discounted rate differently from other discounted or subsidized rates. . . .

3
4 The allocation was collected on the basis of customer count in Case No. U-
5 15245. However, this basis for collection puts a greater burden on the
6 residential class.
7 *[Case No. U-15645, Order November 2, 2009, page 84.]*

8
9 Although Staff’s recommendation is consistent with past Commission orders,
10 there is now a reason to treat E-1 differently from other discounts.

11
12 **Q. What is that reason?**

13 A. The reason is that the method of allocation of the E-1 discount is specifically
14 addressed by statute:

15 . . . the commission shall, after the effective date of this act, allow the utility to
16 fully recover in a general rate case using a projected test year from all of its
17 other electric ratepayers in all classes the full amount of the difference, if any,
18 between the total projected revenue pursuant to the economic development
19 tariff and the utility’s cost to provide service to that customer pursuant to the
20 economic development tariff, both as determined by the commission using the
21 method in the most recent general rate case for the utility. The utility’s
22 recovery of that difference shall be based on the cost allocation method
23 identified in section 11(1) of 1939 PA 3, MCL 460.11.
24 *[MCL 460.995, Sec. 5(2). Emphasis added.]*

25
26
27 **Q. What is “the cost allocation method identified in section 11(1) of 1939 PA 3,**
28 **MCL 460.11”?**

29 A. The specific method identified in MCL 460.11 is the “50-25-25” method:

30 The cost of providing service to each customer class shall be based on the
31 allocation of production-related and transmission costs based on using the 50-
32 25-25 method of cost allocation.
33 *[MCL 460.11, Sec. 11(1). Emphasis added.]*

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Q. What is your recommendation to the Commission?

A. The final interpretation of the law is a legal issue that is up to the Commission. If the Commission decides to follow the plain meaning of the statutes, then the E-1 discount must be allocated by the 50-25-25 method. The Commission currently applies this method using the four coincident peaks (4CP) for a utility to develop an allocation schedule.

To recover the discount from all other rate classes, the 4CP 50-25-25 allocation schedule should exclude the non-jurisdictional portion and exclude the E-1 class portion, adjusting the other classes proportionately. Exhibit EM-5 (AJZ-5) illustrates how this would be done.

I recommend that the Commission use the adjusted allocation schedule in Exhibit EM-5 (AJZ-5), column C, to allocate the E-1 discount.

Q. Should the Senior Citizen and Income Assistance discounts also be allocated by the 4CP 50-25-25 method?

A. There does not appear to be any statutory requirement to do so.

As stated in my direct testimony [page 12, line 9-12], the Company's proposal to allocate by total cost of service is reasonable. Since rates are supposed to be set to reflect the cost of service, allocation by total cost of service results in the burden of the discounts

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1 being close in proportion to the charges paid for utility service by other classes. Further,
2 since the RS residential class *receives* these discounts, rather than *pays* these discounts,
3 the method of allocation – whether by cost-of-service or by energy – has *no effect* at all
4 on the RS residential class.

5
6 **Q. Do you have other recommendations regarding the method that the Staff**
7 **uses to allocate discounts?**

8 A. Yes. As did Consumers Energy, the Staff’s rate design included all of the
9 discounts – E-1, Senior Citizens, and Income Assistance – allocated to other rate classes
10 in the delivery charges of the other classes, rather than splitting the charges within each
11 class by power supply and delivery. I explained this issue and the need to maintain
12 fairness in charges in my direct testimony [pages 10-19], and will not repeat that
13 explanation here.

14
15 Whatever method the Commission decides to use for allocation of discounts to
16 rate classes, my recommendation is the allocated portion should still be split within each
17 class by power supply and delivery, as explained in my direct testimony.

18
19 The current inequity is large. For example, the Staff’s cost of service for E-1, in
20 Exhibit S-6, Schedule F-2.1, shows E-1 total power supply costs of \$167.8 M, yet
21 delivery costs of only \$3.0 M. Staff’s discount [line17, column (i)] is \$64.4 M.

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1 Even if all the delivery cost is absorbed first in the discount, there is still \$61 M
2 that is being discounted from power supply costs. To discount the *power supply costs* of
3 the E-1 rate by \$61 M but collect the discount via the *delivery charges* of other rates
4 makes no sense.

5
6 Instead, all of the discounts – E-1, Senior Citizens, and Income Assistance –
7 allocated to other classes by whatever allocation method the Commission decides should
8 be subsequently split between power supply charges and delivery charges within each
9 class, as explained in my direct testimony.

10
11 **Q. Would the residential classes be affected by the split of the discounts into**
12 **power supply and delivery?**

13 A. No. The residential class has virtually zero ROA use, and consequently the
14 quantity of power supply energy is the same as the quantity of delivery energy.
15 Therefore there will be no change in how much of the E-1 discount that full-service
16 residential customers will pay. The total dollar amount will stay the same, but it will be
17 reflected in both power supply rates and delivery rates, instead of all in the delivery rates.

18
19 **Q. Would Consumers Energy revenue be affected by the split of the discounts**
20 **into power supply and delivery?**

21 A. No. The split of the discounts within a rate class into power supply and delivery
22 has no effect on Consumers Energy's total revenue or authorized revenue increase. Once
23 the discounts are allocated to rate classes, the split does not change the rate design target

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1 for a rate class. Dollars are merely split into charges for two categories – power supply
2 and delivery – instead of put all into delivery. All delivery customers will pay the
3 discount portion put into delivery charges, and full service customers will pay the
4 discount portion put into power supply charges.

II. Staff Proposals

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9 **Q. Have you reviewed the Staff’s proposed additions to the ROA tariff for**
10 **residential customers?**

11 A. Yes. Staff has proposed four changes directed to residential customer protections.

12 As Staff witness Ms. Cornfield explains:

13 Staff’s proposal is intended to provide residential customers with additional
14 protections against slamming and deceptive marketing and ensuring that AESs
15 provide customers with complete and accurate information. . . .

16
17 These recommendations are consistent with the approved Gas Customer
18 Choice (GCC) tariffs.

19 *[Cornfield Direct Testimony, page 9, lines 8-11 and 13-14.]*
20

21 I have reviewed Staff’s proposals and recommend that one proposal be optional. Other
22 than that, I find them reasonable and workable if there are slight revisions to two of the
23 proposed changes.

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1 **Q. Which proposal do you recommend be optional, and why?**

2 A. The choice between “complete billing” (one bill issued by Consumers Energy
3 containing both Company and AES charges) and “separate billing” (Company and AES
4 issue separate bills with charges of each) should continue to be optional, as it is at
5 present.

6
7 The GCC program does have mandatory complete billing, as described in the
8 GCC rules, section F1, paragraphs K, L, and M. But the implementation of the GCC
9 complete billing includes settlement and cash remittance rules for both Company and
10 Supplier. It works differently from the complete billing rules for Electric Choice in rule
11 E2.6 of the ROA tariff.

12
13 If the Commission decides that there should be mandatory complete billing for
14 residential Electric Choice customers, then the ROA tariff should be modified more
15 extensively such that it parallels the GCC program regarding credit and collection,
16 settlement with AES, and cash remittance – a “purchase of receivables” type procedure.

17
18 **Q. You are recommending revisions to two of the Staff’s proposed changes.**
19 **What is the first of the proposed changes that should be revised, and how should it**
20 **be revised?**

21 A. As discussed above, Staff has recommended that AESs be required to use
22 Consumers Energy’s “complete billing” for residential bills. Staff witness Ms. Cornfield
23 submitted Exhibit S-17 with a mark-up of the proposed change, which affect rules E2.6,

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1 E3.1, E3.5, and E3.8. The principle reference is under rule E2.6 “Billing and Payment”
2 on page 2 of the exhibit. If the Commission decides that complete billing for residential
3 should be mandatory, then E2.6 would need extensive revision to mirror the GCC
4 complete billing method of “purchase of receivables.”

5
6 At the minimum, one revision is to add the sentence: “The Company will be
7 responsible for credit and collection activities for the amounts billed directly to the
8 customer by the Company.” This is the same sentence that appears in the Gas Customer
9 Choice (GCC) rules, section F1, paragraph K, which also requires a single bill to be
10 issued by the Company. In my opinion it would not be workable for Consumers Energy
11 to issue a bill to a residential customer and then have the AES be responsible for
12 collecting part of the charges that are on the single bill. That is why it should work the
13 same as GCC – single bill, single issuer, single collector.

14
15 So, the addition to rule E2.6 should read:

16 *Retailers who offer residential ROA service must use the Company’s complete*
17 *billing option. Complete billing is done by the Company and the ROA*
18 *customer will receive a single bill, which includes the Company’s charges as*
19 *well as the Retailer charges. The Company will be responsible for credit and*
20 *collection activities for the amounts billed directly to the customer by the*
21 *Company.*
22
23

24 If the Commission decides that complete billing for residential remain optional or
25 decides to make it mandatory but not to mirror the GCC method, then the second revision
26 is to separate the distribution of payments received for “past due” and “current” charges,

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1 also in rule E2.6. A long-standing utility principle has been that payments are applied
2 first to any past due charges, then to current charges. Since the Company is collecting *all*
3 the payments, this principle should be applied to both the Company and the AES at the
4 same time. The specific paragraph in rule E2.6 should be changed to read:

5 Payments received from or on behalf of a ROA customer shall be applied in
6 the following order:

- 7
8 (a) all past due ~~and current~~ Company regulated charges,
9 (b) past due ~~and current~~ Retailer Power supply charges,
10 (c) current Company regulated charges,
11 (d) current Retailer Power supply charges,
12 (e) other Company charges, and
13 (f) other Retailer charges.
14

15 **Q. What is the second of the proposed changes that should be revised, and how**
16 **should it be revised?**

17 A. Staff has recommended that a confirmation letter and contract, if applicable, be
18 U.S. mailed to the residential customer within 7 days of signing a contract. Exhibit S-17,
19 page 8, shows additional language at the end of rule E3.8.

20
21 Many retail mass markets use the Internet for sales, enrollments, financial
22 statements, and other transactions. For example, telephone services can be changed via
23 Internet transactions. It is conceivable, and even likely, that residential energy sales may
24 use the Internet. So I recommend that Internet confirmation be allowed for residential
25 customers who sign up for ROA service via the Internet.
26

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1 The paragraph added by the Staff on page 8 of Exhibit S-17 should be revised in
2 part to read:

3 *A Retailer must distribute a confirmation letter to residential customers by*
4 *U.S. Mail, or by verifiable electronic mail for customers enrolled via the*
5 *Internet. The confirmation letter must be postmarked or transmitted within*
6 *seven (7) days . . .*
7
8

9 **III. Staff Perspectives on Company Proposals**

10
11 **Q. Staff has commented on three of Consumers Energy’s proposals and has**
12 **stated it is not opposed. Do you agree with the Staff’s perspectives on these**
13 **proposals?**

14 A. No, I do not. I have already addressed the shortcomings of the proposals and
15 Consumers Energy’s lack of support in my direct testimony. I will address the Staff’s
16 rationale here.

17
18 The first proposal addressed by the Staff combines the \$45 meter read charge and
19 the deletion of the qualifier excluding non-performance of the telecom provider as a
20 condition of cancelling ROA service. Staff states:

21 Staff does not oppose the Company’s first proposed change to the ROA tariff
22 that allows for a \$45 manual meter read charge for the second manual read
23 within a 12-month period and requires the customer to take responsibility for
24 resolving the non-performance of its telecommunications service provider for
25 electronic data meter access.

26 *[Cornfield Direct Testimony, page 6, lines 18-22.]*
27

28 Staff has also submitted Exhibit S-16, containing two discovery responses by
29 Consumers Energy.

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Q. Do the discovery responses reveal a significant problem with performance of the telecom provider?

A. No, to the contrary. The size of the problem is very small. Exhibit S-16, page 1, paragraph 2b says “In the last 24 months there have been 45 ROA accounts that have required 4 or more manual meter readings.”

The response does not say that all of the manual reads were due to the fault of the telecom provider. Some of them may well have been the fault of the Company. The Company has over 1,000 ROA customers, and 45 instances compose an extremely small percentage of monthly meter reads over 24 months. In dollar terms, the issue is miniscule. Even if all the meter failures were the result of the telecom provider – and none the fault of the Company – 45 instances times \$45 times 3 reads divided by 2 years equals an annual problem of only \$3,038.

Further, Exhibit S-16, paragraph 3, says only that “There have been instances when customers have experienced non-performance of the telecommunications service provider for 5 or more months.” It does *not* say how many times this has occurred. But from the previous page of the exhibit, there can be *at most* 45 instances. The true number is 45 instances, less the number of instances that were exactly 4 months, less the number of instances that were due to Consumers Energy, less the number of instances that were due to the customer (for example, submitting an incorrect phone number).

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1 For a company the size and sophistication of Consumers Energy, there is not a
2 material problem here -- \$3,038 annually does not indicate a material problem. And the
3 Commission should recognize that certainly there is no problem of such magnitude that a
4 customer should be terminated from ROA service.

5
6 **Q. What is the second of the proposals on which you disagree with the Staff's**
7 **perspective?**

8 A. The second proposal to which the Staff stated it had no objection is the change in
9 the timing of the written notice required to return to Full Service, proposed by Consumers
10 Energy to be changed from December 1 to October 1.

11
12 As I explained in my direct testimony, the timing and nature of Consumers
13 Energy's obligations to MISO are now known, and the due date does not need to be
14 changed. The Staff and Commission should recognize the new facts of the situation,
15 versus what was unknown at the time the Company filed its case.

16
17 **Q. What is the third of the proposals on which you disagree with the Staff's**
18 **perspective?**

19 A. The third proposal to which the Staff stated it had no objection is the change that
20 effectively eliminates load profiling available to primary customers that are not interval
21 metered.

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1 First of all, Consumers Energy did not offer any explanation or support for this
2 change. Nor did the Staff give any explanation or support for the change, stating only
3 that the change “clarifies that the use of profiles is not appropriate for a Primary voltage
4 level customer even if its load is less than 20kw for any period.” [*Cornfield Direct*
5 *Testimony, page 8, lines 12-14. Emphasis added.*]

6
7 There are reasons *not* to change, as explained in my direct testimony [pages 25-
8 26], and to keep load profiling available to primary customers that are not interval
9 metered.

10
11 A proposed change in the tariff for which no explanation, support, or rationale has
12 been offered should not be accepted by the Staff or the Commission.

13
14 **Q. Does this conclude your Rebuttal Testimony?**

15 A. Yes, it does.

Allocation Factors for E-1 Discount

Based on 4CP 50-25-25 Method

Line No.	(A) <u>Rate Class</u>	(B) <u>All Classes 4CP 50-25-25 Allocation %</u>	(C) <u>E-1 Discount 4CP 50-25-25 Allocation %</u>
1			
2	RS	39.136	41.5170
3	RT	<u>0.112</u>	0.1188
4	Total Residential	39.248	
5			
6	GS	10.647	11.2948
7	GSD	<u>13.331</u>	14.1420
8	Total Secondary	23.978	
9			
10	GP	3.590	3.8084
11	GPD Vlt 1+2+3	26.454	28.0634
12	MMPP	0.466	0.4944
13	E-1	<u>4.989</u>	--
14	Total Primary	35.499	
15			
16	GML	0.010	0.0106
17	GUL	0.170	0.1803
18	GU	<u>0.239</u>	0.2535
19	Total Lighting & Unmetered	0.419	
20			
21	GSG	0.110	0.1167
22		-----	
##	Total Jurisdictional	99.254	100.0000
##		-----	
##	Total Non-Jursidictional	0.745	
##		-----	
##	Total Electric	99.999	
##			
##			
##			
##			
##			

Notes:

1. Rate classes in column (A) are from Exhibit A-11 (EJK-2) pages 10-12.
2. Allocation factors in column (B) are from Exhibit A-11 (EJK-2), pages 10-12, line 18 "4CP 50/25/25".
3. Allocation factors in column (C) are pro-rated based on column (B), line 25 less line 14: Total Jurisdictional less E-1: column (C) = Column (B) / (.01 * (99.254 - 4.989)).
4. Column (C) should be used for the allocation of the E-1 discount to other rate classes.

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the application of)
CONSUMERS ENERGY COMPANY)
for authority to increase its rates for the)
generation and distribution of electricity)
and for other relief.)
_____)

Case No. U-17087

PROOF OF SERVICE

STATE OF MICHIGAN)
) ss.
COUNTY OF INGHAM)

Monica Robinson, the undersigned, being first duly sworn, deposes and says that she is a Legal Secretary at Varnum LLP and that on the 13th day of March, 2013, she served a copy of Rebuttal Testimony of Alexander J. Zakem on Behalf of Energy Michigan, Inc. to those individuals listed on the attached Service List by email at their last known addresses.

Monica Robinson

SERVICE LIST CASE U-17087

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